THE WANADA BULLETIN
NEWS AND INFORMATION FOR AND ABOUT FRANCHISED NEW CAR DEALERS IN THE WASHINGTON AREA

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Headlines…

Sequester: How might it impact area car sales?

No one knows how the deadlock over sequester in Washington might affect the area economy – or auto sales.

The deadline on whether sequester of the government will happen has passed. It's happening albeit we won't know the full effect until later this month – we think. How will it affect the area economy and its dealers? No one knows, of course. The idea behind passing the bill last year mandating sequestration if no grand bargain was reached on the budget was that the spending cuts were so onerous and arbitrary that Congress would be shamed into agreeing on a budget deal. We all know the rest.

But because federal employees must be given 30 days' notice for furloughs, the unpaid time off cannot begin until the end of March. That gives Congress more time, after the March 1 deadline, to work out a deal. NADA chief economist Paul Taylor believes Congress will pass legislation in the next few days enabling compromise on administration rules for the sequester.

But it's unclear how long that might take or if it will happen at all. If the sequester does go through, everyone expects that the Washington area will be hurt the most, since the local economy is so dependent on federal dollars. "Two out of every five dollars in the metropolitan area's economy come directly from the federal government," said a report in the *Washington Post*, citing economists at the George Mason University Center for Regional Analysis. Many federal employees have received furlough notices saying they will need to take one day of unpaid leave every two weeks, from March 27 until the end of September, the end of the fiscal year.

The burden is harder for civilian Defense Department employees, who must take a disproportionate share of the cuts to make up for active-duty military being exempt. Civilian staff could lose 20 percent of their pay. That will apply to 46,000 employees in Maryland, 90,000 in Virginia and 13,000 in the District, according to the White House report of state-by-state impacts.

One might assume that a cut in area income means consumers are less likely to make what is usually a discretionary purchase, a new vehicle. But dealers are optimistic by nature, and two WANADA member dealers quoted in *USA Today* seem unconcerned. “Of course this will impact our region, but we don’t think it will impact our auto sales at all,” said Tammy Darvish, of DARCARS. And although Jack Fitzgerald of Fitzgerald Auto Malls said he heard rumbling of car buyer concern over sequester recently, he attributed it to media hype. “It’s affecting our business,” he said, “but it will pass because they aren’t cutting that much.”

Short VA legislative session ends with major transportation initiative, as MD legislature grinds on

VA taxes slated to rise, to include vehicle title tax going from 3 to 4%

Years have passed since Virginia has done significant transportation improvements the likes of what has just passed by the Virginia General Assembly, but pass it did in the waning hours of the 2013 session and it’s on its way to the governor to be signed into law.

The multimillion dollar package, designed to generate $880 million/year when fully implemented in 2018, is comprehensive, to include mass transit and intercity rail in addition to road and highway improvements. It is also regionally balanced such that the higher use areas of Northern Virginia and Hampton Road will be more impacted.

Curiously, the funding for the package reshuffles the deck on state gasoline taxes, resulting in a net *reduction* from the current 17.5 cents per gallon down to about 10 cents. The funds, therefore, will come substantially from general sales taxes slated to rise from 5% to 5.3% along with an increase in vehicle title tax from the current 3% to 4%. The 1% hike in title tax would commence July 1 of this year and rise incrementally .1% each year thereafter until July 2016 when it would top out at 4.3%.

Softening the car buyer tax increase is a change in the legal definition of “sales price” that currently includes factory rebate and incentive payments that will not be included in the upcoming increased title tax. A Northern Virginia-specific increase involves an additional .7% increase in general sales tax which on top of the .3%increase amounts to a full percentage point or an overall jump of 5-6% for the region. Significantly, the title tax increase is uniform throughout the Commonwealth, slated to be no more than 4% in Northern Virginia or anywhere else.

Other Virginia legislation that passed affecting the automobile business was positive, to include an enhancement to the franchise law relative to manufacturer chargebacks to dealers such that dealers must be afforded the option to challenge the chargeback before the chargeback is made by the manufacturer. Correspondingly, the laws related to vehicle auctions were streamlined by legislation aimed at facilitating the logistics of dealer participation. VADA, which marshaled these helpful measures, will be covering the specifics in their report(s) on the 2013 legislative session.

Franchise measures in MD and groundwork for a motor vehicle dealer board

Maryland’s year-in-year-out 90 day session of the General Assembly in Annapolis is going forward in due course, until the middle of April, with the typical array of highly charged political issues (e.g., gun control and abolition of the death penalty, etc.). Correspondingly, there is always the specter of tax hikes in Maryland. And while there is no drum beat for *more taxes* this year as there has been in other years, legislators in Maryland are curious, if not emboldened, by Virginia’s hot-off-the press transportation package, which, of course, would require additional public funding to sustain it.

Legislation pertinent to Maryland’s automobile business includes franchise measures supported by MADA and WANADA to clarify the warranty reimbursement law which some OEMs contend calls for lower reimbursement to dealers than the law intended (i.e., compensation by the manufacturer to the dealer for warranty repairs in the amount charged by the dealer to customers for non-warranty work). Such “second generation” warranty reimbursement laws have been implemented in other states to remedy the problem that has appeared in Maryland.

Another franchise measure would prohibit a manufacturer from "retaliating" against Maryland dealer franchisees by such actions as withdrawing certain incentive programs from the state, or arbitrarily increasing the price of vehicles there because of franchise laws enacted by the legislature that the manufacturer has problems with. Because of legal issues manufacturers have raised about similar laws dealers in other states have attempted to enact, careful consideration by dealer advocates has gone into fashioning this bill to ensure its viability.

Additionally, the prospect of implementing a motor vehicle dealer board in Maryland, similar to the one that operates in neighboring Virginia and other states, has been looked at by the Motor Vehicle Administration and others. The dealer group objective here is to craft enabling legislation.

Maryland's state legislative process obviously is still very much a work in progress. But Virginia isn't a done-deal either, since the governor has a month within which to sign the legislation passed by the General Assembly into law, or not.

WANADA will continue working closely with MADA and VADA striving collectively to check "the risk to the well-being and property of the citizenry so long as the legislators are engaged."

Stay tuned.

Employers' deadline for disclosure to employees under Affordable Care Act postponed indefinitely

The U.S. Department of Labor (DOL) has *delayed* the original March 1, 2013 deadline for employers to comply with the requirement to provide employees a written notice about Health Insurance Exchanges at the state level, as required under the Patient Protection and Affordable Care Act (PPACA a.k.a. "Affordable Care Act"). No new deadline has been set yet, but it could be summer or fall. Employers will not be required to comply until further guidance is issued.

The most recent records for sales per store were set in 2012. then 2005.

DOL is considering providing model language that could be used to satisfy the Exchange notice requirement such that employers are required to provide each employee with a written notice along these lines:

- The existence of Exchanges at the state level including a description of the services they will provide and the method for employees to contact the Exchanges for assistance.
- If the employer plan's share of the total allowed cost of benefits provided under the plan is less than 60 percent, the employee might be eligible for a premium tax credit if he or she buys a qualified health plan through an Exchange.
- If the employee buys a qualified health plan through an Exchange, the employee could lose the employer contribution (if any) to any health benefits plan offered by his/her employer. All or part of the employer contribution may be excludable from income for federal income tax purposes.

DOL is also thinking about allowing employers to comply with the notice requirement by giving employees information using an employer coverage template that would be available for download at the Exchange websites.

WANADA members with questions on the Affordable Care Act may contact John O'Donnell in the WANADA office, 202-237-7200 or jod@wanada.org.

Sales per dealership set for U.S. record in 2013

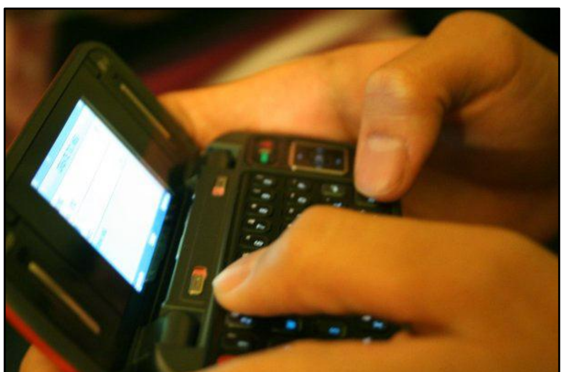
As vehicle sales increase faster than the number of dealerships, sales per store is set to reach a record high of 839 units in 2013, says automotive consultant group Urban Science. That will happen if, as most economists predict, sales reach 15 million this year.

"While there are fewer dealerships today than a decade ago, they are larger and should be able to easily manage the increased sales," said John Firth, vice president – retail solutions. "We have a good balance of sales and stores, allowing for fewer incentives and increased dealership profitability -- key reasons why it's critical to maintain a right-sized network."

Sales per dealership were 719 in 2011 and 812 in 2012, the previous record. Before that, the record was 784, set eight years ago. On January 1, the U.S. had 17,851 dealerships, a 0.5 percent increase from a year earlier.

"In the past, a 2 percent dealership annual decline was considered normal," said Frith. "But barring unexpected economic changes, network growth of 0.1 to 0.2 percent will become the new benchmark for the next few years."

Use social media broadly, or lose customers – J.D. Power



Young consumers are more interested in getting questions answered on social media, while older buyers use it for marketing.

A new study from J.D. Power emphasizes the importance of engaging with consumers through social media – not just for marketing, but to answer customers' questions and respond to servicing needs. Younger buyers are especially interested in getting questions answered and complaints resolved on Facebook, Twitter, Google+ and fan sites. Older buyers are more likely to use social media for marketing, such as coupons and specials.

The study looked at a variety of industries and singled out the auto industry as the only one to do well in social media for both marketing and servicing. Chevrolet, Ford, Subaru and Toyota performed particularly well.

The study "illustrates the relationship between a positive social media experience and consumer purchase intent," said Jacqueline Anderson, director of social media at J.D. Power. It also shows that "companies that are focused only on promoting their brand and deals, or only servicing existing customers, are excluding major groups of their online community."

In other words, automakers and dealerships alike need a comprehensive social media strategy.

The changing landscape of traditional media for advertising cars

A recent study by CNW Research found that vehicle purchase intenders are impacted differently by traditional media sources than was the case five years ago. Not as many, for example, rely on print magazine ads in helping them decide on a car or truck.

Specialty print magazines, such as *Classic Boats* and *Woodworking*, still have strong advertising support, but even that is slipping. One consumer magazine, *Consumer Reports*, saw a gain as a source of information for auto buyers, but more consumers are reading it online.

In television, consumers got more information from ads on cable shows – up 47 percent from a year ago – than from network ads, down 45 percent as a primary source of information. And more consumers are going straight to the source: Automaker websites were up 4.8 percent and dealer sites up 3.75 percent. Third-party sites such as Edmunds rose more, by 8.7 percent.

When consumers are ready to buy, newspaper ads are still the primary information source, says CNW.

NADA economist: CUVs still hot, mileage a smaller concern

Crossovers are still the most popular light vehicles, although automakers trumpeted new small and midsized car designs at recent auto shows, including The Washington Auto Show. That's the word from NADA Industry Analysis in a late-February Economic Update.

"NADA Industry Analysis believes it will take gasoline above $4.50 per gallon before there is a sales surge on small cars that causes their market share to eclipse the share of each of the other two popular classes, CUVs and midsized cars, that households believe meet their expectations fully for the range of household activity," writes NADA chief economist Paul Taylor. Consumers want vehicles that can carry several passengers on activities such as a family vacation, with reasonable mileage.

Area residents sound off on pricing HOT lane alternatives to congestion

Many residents would support expanding HOT lanes around the region.

Area residents expressed cautious support for expansion of HOT lanes around the region, with some caveats. The conclusion came from a study of public opinion about congestion pricing by the Transportation Planning Board (TPB) of the Metropolitan Washington Council of Governments.

With the Washington area now officially recognized by the Texas Transportation Institute as having the worst traffic in the nation, a discussion of ways to deal with worsening traffic congestion and funding problems is timely. TPB offered consumers three scenarios for pricing alternatives to traffic congestion.

(1) Tolls on at least one lane in each direction on all major highways, similar to the new Express lanes on the Beltway in Virginia. Tolls would vary based on congestion levels.

(2) A per-mile fee for drivers to use any road in the region, with higher fees on more heavily traveled routes. "In theory, this scenario would do the most to alleviate congestion by encouraging the greatest redistribution of travel to more efficient routes, modes and times," says the TPB.

(3) A flat fee for drivers to enter highly congested zones such as downtown Washington or Tysons Corner. The aim would be to encourage drivers to carpool or take transit in travel to those areas.

About 60 percent of the 300 participants supported the first choice because it would be an option rather than a requirement. The second choice received the least support. The third received more support than opposition, but participants thought it wouldn't be enough to adequately relieve congestion.

"Overall, participants said their chief concern with pricing traffic congestion alternatives was that most people in the region have no choice but to drive – whether to work or to other important destinations – so any effort to charge drivers more to drive would only amount to unfair gouging," says the TRB.

In Memoriam

John Mattos

WANADA is sad to report the passing of longtime Kindred-line member John Mattos of Pro Finishes Plus, who died late last month after a battle with pancreatic cancer. Mattos followed in the footsteps of his father and grandfather to work in the family business, Mattos Paint (now Pro Finishes Plus), which started in Washington in 1928, principally as a contractor to body shops. He spent his career selling DuPont paint and providing support to area dealers and independent collision repair facilities throughout DC, Maryland and Virginia. He is survived by his wife, Elizabeth, and daughter, Amanda, who are planning a "celebration of his life" in April.

Contributions to John's memory can be made to the Salvation Army, 2626 Pennsylvania Avenue, NW, Washington, DC 20037, 202-756-2600.

To his family and many friends, WANADA extends its sincerest sympathy.

The view this week from both sides of the aisle…

The sequester is going to raise the apparition again of the so-called grand bargain, which isn't grand and certainly isn't a bargain.

--Rep. Alan Grayson (D-Fla.)

Sequester is not the end of the world.

--Rep. Jim Jordan (R-Ohio)